

EXAMPLE #1

NET OPERATING LOSS

| | FOREIGN <u>PARENT A</u> | FOREIGN <u>CORP B</u> | DOMESTIC <u>CORP C</u> | DOMESTIC <u>CORP D</u> | DOMESTIC <u>CORP E</u> | <u>TOTAL</u> |
|----------------------------|----------------------------|--------------------------|---------------------------|---------------------------|---------------------------|---------------|
| <i>OWNERSHIP %</i> | <u>N/A</u> | <u>60%</u> | <u>100%</u> | <u>100%</u> | <u>100%</u> | |
| <u>1986 FACTS</u> | | | | | | |
| UNITARY BUSINESS INCOME | (\$2,500,000) | \$1,000,000 | \$100,000 | \$500,000 | (\$2,000,000) | (\$2,900,000) |
| U.S. SOURCE INCOME | \$0 | \$0 | N/A | N/A | N/A | \$0 |
| AVERAGE TOTAL FACTORS | \$20,000,000 | \$10,000,000 | \$10,000,000 | \$1,000,000 | \$2,000,000 | \$43,000,000 |
| AVERAGE U.S. FACTORS | \$0 | \$2,000,000 | \$10,000,000 | \$1,000,000 | \$2,000,000 | \$15,000,000 |
| AVERAGE CALIFORNIA FACTORS | \$0 | \$1,000,000 | \$1,000,000 | \$1,000,000 | \$2,000,000 | \$5,000,000 |

1987 FACTS

| | | | | | | |
|----------------------------|--------------|--------------|--------------|-------------|-------------|--------------|
| UNITARY BUSINESS INCOME | \$800,000 | \$200,000 | \$100,000 | \$200,000 | (\$800,000) | \$500,000 |
| U.S. SOURCE INCOME | \$0 | \$0 | N/A | N/A | N/A | \$0 |
| AVERAGE TOTAL FACTORS | \$35,000,000 | \$25,000,000 | \$12,000,000 | \$1,000,000 | \$2,000,000 | \$75,000,000 |
| AVERAGE U.S. FACTORS | \$0 | \$5,000,000 | \$12,000,000 | \$1,000,000 | \$2,000,000 | \$20,000,000 |
| AVERAGE CALIFORNIA FACTORS | \$0 | \$2,000,000 | \$3,000,000 | \$1,000,000 | \$2,000,000 | \$8,000,000 |

1988 FACTS

| | | | | | | |
|----------------------------|--------------|--------------|--------------|-------------|-------------|--------------|
| UNITARY BUSINESS INCOME | \$2,000,000 | \$500,000 | \$100,000 | \$200,000 | \$200,000 | \$3,000,000 |
| U.S. SOURCE INCOME | \$0 | \$0 | N/A | N/A | N/A | \$0 |
| AVERAGE TOTAL FACTORS | \$40,000,000 | \$30,000,000 | \$15,000,000 | \$2,000,000 | \$3,000,000 | \$90,000,000 |
| AVERAGE U.S. FACTORS | \$0 | \$6,000,000 | \$15,000,000 | \$2,000,000 | \$3,000,000 | \$26,000,000 |
| AVERAGE CALIFORNIA FACTORS | \$0 | \$2,000,000 | \$4,000,000 | \$2,000,000 | \$3,000,000 | \$11,000,000 |

EXAMPLE #1

INCOME & NOL CALCULATION UNDER WORLD-WIDE COMBINATION

| | TOTAL | -----CALIFORNIA FACTORS----- | | | | |
|-----------------------------------|---------------|------------------------------|-------------------|--------------------|--------------------|--------------------|
| | | FOREIGN PARENT A | FOREIGN CORP B | DOMESTIC CORP C | DOMESTIC CORP D | DOMESTIC CORP E |
| <u>1986</u> | | | | | | |
| APPORTIONMENT FACTORS | \$43,000,000 | \$0 | \$1,000,000 | \$1,000,000 | \$1,000,000 | \$2,000,000 |
| CALIFORNIA INTRASTATE % | 11.63% | 0.00% | 2.33% | 2.33% | 2.33% | 4.65% |
| TOTAL UNITARY BUSINESS INCOME | (\$2,900,000) | | | | | |
| CALIFORNIA NET INCOME/(LOSS) | (\$337,209) | \$0 | (\$67,442) | (\$67,442) | (\$67,442) | (\$134,884) |
| <i>NOL CARRYOVER (50%)</i> | | <i>\$0</i> | <i>(\$33,721)</i> | <i>(\$33,721)</i> | <i>(\$33,721)</i> | <i>(\$67,442)</i> |
| | | | | | | |
| <u>1987</u> | | | | | | |
| APPORTIONMENT FACTORS | \$75,000,000 | \$0 | \$2,000,000 | \$3,000,000 | \$1,000,000 | \$2,000,000 |
| CALIFORNIA INTRASTATE % | 10.67% | 0.00% | 2.67% | 4.00% | 1.33% | 2.67% |
| TOTAL UNITARY BUSINESS INCOME | \$500,000 | | | | | |
| CALIF. BUSINESS INCOME BEFORE NOL | \$53,333 | \$0 | \$13,333 | \$20,000 | \$6,667 | \$13,333 |
| <i>NOL CARRYOVER FROM 1986</i> | | <i>\$0</i> | <i>(\$33,721)</i> | <i>(\$33,721)</i> | <i>(\$33,721)</i> | <i>(\$67,442)</i> |
| CALIFORNIA NET INCOME | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| <i>NOL CARRYOVER</i> | | <i>\$0</i> | <i>(\$20,388)</i> | <i>(\$13,721)</i> | <i>(\$27,054)</i> | <i>(\$54,109)</i> |
| | | | | | | |
| <u>1988</u> | | | | | | |
| APPORTIONMENT FACTORS | \$90,000,000 | \$0 | \$2,000,000 | \$4,000,000 | \$2,000,000 | \$3,000,000 |
| CALIFORNIA INTRASTATE % | 12.22% | 0.00% | 2.22% | 4.44% | 2.22% | 3.33% |
| TOTAL UNITARY BUSINESS INCOME | \$3,000,000 | | | | | |
| CALIFORNIA NET INCOME/(LOSS) | \$366,667 | \$0 | \$66,667 | \$133,333 | \$66,667 | \$100,000 |
| <i>NOL CARRYOVER FROM 1986</i> | | <i>\$0</i> | <i>(\$20,388)</i> | <i>(\$13,721)</i> | <i>(\$27,054)</i> | <i>(\$54,109)</i> |
| CALIFORNIA NET INCOME AFTER NOL | \$251,395 | \$0 | \$46,279 | \$119,612 | \$39,613 | \$45,891 |

EXAMPLE #1

INCOME & NOL CALCULATION UNDER A WATER'S-EDGE ELECTI

| | TOTAL | -----CALIFORNIA FACTORS----- | | | | |
|-------------------------------|--------------|------------------------------|-------------------|--------------------|--------------------|--------------------|
| | | FOREIGN PARENT A | FOREIGN CORP B | DOMESTIC CORP C | DOMESTIC CORP D | DOMESTIC CORP E |
| 1986 | | | | | | |
| APPORTIONMENT FACTORS | \$23,000,000 | N/A | \$1,000,000 | \$1,000,000 | \$1,000,000 | \$2,000,000 |
| CALIFORNIA INTRASTATE % | 21.74% | N/A | 4.35% | 4.35% | 4.35% | 8.70% |
| TOTAL UNITARY BUSINESS INCOME | (\$400,000) | | | | | |
| CALIFORNIA NET INCOME/(LOSS) | (\$86,957) | N/A | (\$17,391) | (\$17,391) | (\$17,391) | (\$34,783) |
| <i>NOL CARRYOVER (50%)</i> | | N/A | (\$8,696) | (\$8,696) | (\$8,696) | (\$17,391) |

| | | | | | | |
|-------------------------------|--------------|-----|-------------|-------------|-------------|-------------|
| 1987 | | | | | | |
| APPORTIONMENT FACTORS | \$40,000,000 | N/A | \$2,000,000 | \$3,000,000 | \$1,000,000 | \$2,000,000 |
| CALIFORNIA INTRASTATE % | 20.00% | N/A | 5.00% | 7.50% | 2.50% | 5.00% |
| TOTAL UNITARY BUSINESS INCOME | (\$300,000) | | | | | |
| CALIFORNIA NET INCOME/(LOSS) | (\$60,000) | N/A | (\$15,000) | (\$22,500) | (\$7,500) | (\$15,000) |
| <i>NOL CARRYOVER</i> | | N/A | (\$7,500) | (\$11,250) | (\$3,750) | (\$7,500) |

THE FOREIGN PARENT IS NOT INCLUDED IN THE WATER'S-EDGE GROUP BECAUSE IT DOES NOT HAVE AVERAGE U.S. FACTORS OF 20% OR MORE, AND HAS NO U.S. SOURCE INCOME. THE NOL AMOUNTS HAVE BEEN RECALCULATED AS IF A WATER'S-EDGE ELECT WAS IN EFFECT.

| | | | | | | |
|-----------------------------------|--------------|-----|-------------|-------------|-------------|-------------|
| 1988 | | | | | | |
| APPORTIONMENT FACTORS | \$50,000,000 | N/A | \$2,000,000 | \$4,000,000 | \$2,000,000 | \$3,000,000 |
| CALIFORNIA INTRASTATE % | 22.00% | N/A | 4.00% | 8.00% | 4.00% | 6.00% |
| TOTAL UNITARY BUSINESS INCOME | \$1,000,000 | | | | | |
| CALIFORNIA BUSINESS INCOME/(LOSS) | \$220,000 | N/A | \$40,000 | \$80,000 | \$40,000 | \$60,000 |
| <i>NOL CARRYOVER FROM 1986 *</i> | | N/A | \$0 | \$0 | (\$2,029) | (\$4,058) |
| CALIFORNIA NET INCOME AFTER NOL | \$213,913 | N/A | \$40,000 | \$80,000 | \$37,971 | \$55,942 |

* THE NOL CARRYOVER FROM 1986 HAS BEEN REDUCED. CORP B & C USED THE ENTIRE REDUCED AMOUNT IN 1987. CORP D & E HAD A SMALL AMOUNT AVAILABLE IN 1987. THE WORLD WIDE GROUP REPORTED INCOME IN 1987 SO NO NOL IS AVAILABLE FOR THAT YEAR.

EXAMPLE #2

NET OPERATING LOSS

| | FOREIGN <u>PARENT A</u> | FOREIGN <u>CORP B</u> | DOMESTIC <u>CORP C</u> | DOMESTIC <u>CORP D</u> | DOMESTIC <u>CORP E</u> | <u>TOTAL</u> |
|----------------------------|----------------------------|--------------------------|---------------------------|---------------------------|---------------------------|---------------|
| <i>OWNERSHIP %</i> | <u>N/A</u> | <u>60%</u> | <u>100%</u> | <u>100%</u> | <u>100%</u> | |
| UNITARY BUSINESS INCOME | (\$2,500,000) | \$1,000,000 | \$100,000 | \$500,000 | (\$1,000,000) | (\$1,900,000) |
| U.S. SOURCE INCOME | \$0 | \$0 | N/A | N/A | N/A | \$0 |
| AVERAGE TOTAL FACTORS | \$20,000,000 | \$10,000,000 | \$10,000,000 | \$1,000,000 | \$2,000,000 | \$43,000,000 |
| AVERAGE U.S. FACTORS | \$0 | \$2,000,000 | \$10,000,000 | \$1,000,000 | \$2,000,000 | \$15,000,000 |
| AVERAGE CALIFORNIA FACTORS | \$0 | \$1,000,000 | \$1,000,000 | \$1,000,000 | \$2,000,000 | \$5,000,000 |

1987 FACTS

| | | | | | | |
|----------------------------|--------------|--------------|--------------|-------------|-------------|--------------|
| UNITARY BUSINESS INCOME | \$800,000 | \$200,000 | \$100,000 | \$200,000 | (\$800,000) | \$500,000 |
| U.S. SOURCE INCOME | \$0 | \$0 | N/A | N/A | N/A | \$0 |
| AVERAGE TOTAL FACTORS | \$35,000,000 | \$25,000,000 | \$12,000,000 | \$1,000,000 | \$2,000,000 | \$75,000,000 |
| AVERAGE U.S. FACTORS | \$0 | \$5,000,000 | \$12,000,000 | \$1,000,000 | \$2,000,000 | \$20,000,000 |
| AVERAGE CALIFORNIA FACTORS | \$0 | \$2,000,000 | \$3,000,000 | \$1,000,000 | \$2,000,000 | \$8,000,000 |

1988 FACTS

| | | | | | | |
|----------------------------|--------------|--------------|--------------|-------------|-------------|--------------|
| UNITARY BUSINESS INCOME | \$2,000,000 | \$500,000 | \$100,000 | \$200,000 | \$200,000 | \$3,000,000 |
| U.S. SOURCE INCOME | \$0 | \$0 | N/A | N/A | N/A | \$0 |
| AVERAGE TOTAL FACTORS | \$40,000,000 | \$30,000,000 | \$15,000,000 | \$2,000,000 | \$3,000,000 | \$90,000,000 |
| AVERAGE U.S. FACTORS | \$0 | \$6,000,000 | \$15,000,000 | \$2,000,000 | \$3,000,000 | \$26,000,000 |
| AVERAGE CALIFORNIA FACTORS | \$0 | \$2,000,000 | \$4,000,000 | \$2,000,000 | \$3,000,000 | \$11,000,000 |

EXAMPLE #2**INCOME & NOL CALCULATION UNDER WORLD-WIDE COMBINATION**

| | -----CALIFORNIA FACTORS----- | | | | | |
|---|------------------------------|-----------------------------|---------------------------|----------------------------|----------------------------|----------------------------|
| | <u>TOTAL</u> | <u>FOREIGN PARENT A</u> | <u>FOREIGN CORP B</u> | <u>DOMESTIC CORP C</u> | <u>DOMESTIC CORP D</u> | <u>DOMESTIC CORP E</u> |
| <u>1986</u> | | | | | | |
| APPORTIONMENT FACTORS | \$43,000,000 | \$0 | \$1,000,000 | \$1,000,000 | \$1,000,000 | \$2,000,000 |
| CALIFORNIA INTRASTATE % | 11.63% | 0.00% | 2.33% | 2.33% | 2.33% | 4.65% |
| TOTAL UNITARY BUSINESS INCO (\$1,900,000) | | | | | | |
| CALIFORNIA NET INCOME/(LOSS) | (\$220,930) | \$0 | (\$44,186) | (\$44,186) | (\$44,186) | (\$88,372) |
| <i>NOL CARRYOVER (50%)</i> | | \$0 | (\$22,093) | (\$22,093) | (\$22,093) | (\$44,186) |
| <u>1987</u> | | | | | | |
| APPORTIONMENT FACTORS | \$75,000,000 | \$0 | \$2,000,000 | \$3,000,000 | \$1,000,000 | \$2,000,000 |
| CALIFORNIA INTRASTATE % | 10.67% | 0.00% | 2.67% | 4.00% | 1.33% | 2.67% |
| TOTAL UNITARY BUSINESS INCO | \$500,000 | | | | | |
| CALIF. NET INCOME BEFORE NOI | \$53,333 | \$0 | \$13,333 | \$20,000 | \$6,667 | \$13,333 |
| <i>NOL CARRYOVER FROM 1986</i> | | \$0 | (\$22,093) | (\$22,093) | (\$22,093) | (\$44,186) |
| CALIFORNIA NET INCOME | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| <i>NOL CARRYOVER</i> | | \$0 | (\$8,760) | (\$2,093) | (\$15,426) | (\$30,853) |
| <u>1988</u> | | | | | | |
| APPORTIONMENT FACTORS | \$90,000,000 | \$0 | \$2,000,000 | \$4,000,000 | \$2,000,000 | \$3,000,000 |
| CALIFORNIA INTRASTATE % | 12.22% | 0.00% | 2.22% | 4.44% | 2.22% | 3.33% |
| TOTAL UNITARY BUSINESS INCO | \$3,000,000 | | | | | |
| CALIFORNIA NET INCOME/(LOSS) | \$366,667 | \$0 | \$66,667 | \$133,333 | \$66,667 | \$100,000 |
| <i>NOL CARRYOVER FROM 1986</i> | | \$0 | (\$8,760) | (\$2,093) | (\$15,426) | (\$30,853) |
| CALIF. NET INCOME AFTER NOL | \$309,535 | \$0 | \$57,907 | \$131,240 | \$51,241 | \$69,147 |

EXAMPLE #2**INCOME & NOL CALCULATION UNDER A WATER'S-EDGE ELECTION**

| | ----- CALIFORNIA FACTORS ----- | | | | | |
|------------------------------|--------------------------------|---------------------|-------------------|--------------------|--------------------|--------------------|
| | TOTAL | FOREIGN PARENT A | FOREIGN CORP B | DOMESTIC CORP C | DOMESTIC CORP D | DOMESTIC CORP E |
| <u>1986</u> | | | | | | |
| APPORTIONMENT FACTORS * | \$23,000,000 | N/A | \$1,000,000 | \$1,000,000 | \$1,000,000 | \$2,000,000 |
| CALIFORNIA INTRASTATE % | 21.74% | N/A | 4.35% | 4.35% | 4.35% | 8.70% |
| TOTAL UNITARY BUSINESS INCO | \$600,000 | | | | | |
| CALIFORNIA NET INCOME/(LOSS) | <u>\$130,435</u> | <u>N/A</u> | <u>\$26,087</u> | <u>\$26,087</u> | <u>\$26,087</u> | <u>\$52,174</u> |

| | | | | | | |
|------------------------------|-------------------|------------|-------------------|-------------------|------------------|-------------------|
| <u>1987</u> | | | | | | |
| APPORTIONMENT FACTORS * | \$40,000,000 | N/A | \$2,000,000 | \$3,000,000 | \$1,000,000 | \$2,000,000 |
| CALIFORNIA INTRASTATE % | 20.00% | N/A | 5.00% | 7.50% | 2.50% | 5.00% |
| TOTAL UNITARY BUSINESS INCO | (\$300,000) | | | | | |
| CALIFORNIA NET INCOME/(LOSS) | <u>(\$60,000)</u> | <u>N/A</u> | <u>(\$15,000)</u> | <u>(\$22,500)</u> | <u>(\$7,500)</u> | <u>(\$15,000)</u> |
| NOL CARRYOVER (50%) | | <u>N/A</u> | <u>(\$7,500)</u> | <u>(\$11,250)</u> | <u>(\$3,750)</u> | <u>(\$7,500)</u> |

* THE FACTORS AND INCOME OF THE PARENT WOULD NOT BE INCLUDED IN THE WATER'S EDGE GROUP BECAUSE OF NO U.S. SOURCE INCOME AND NO U.S. FACTORS.

| | | | | | | |
|------------------------------|------------------|------------|-----------------|-----------------|-----------------|-----------------|
| <u>1988</u> | | | | | | |
| APPORTIONMENT FACTORS | \$50,000,000 | N/A | \$2,000,000 | \$4,000,000 | \$2,000,000 | \$3,000,000 |
| CALIFORNIA INTRASTATE % | 22.00% | N/A | 4.00% | 8.00% | 4.00% | 6.00% |
| TOTAL UNITARY BUSINESS INCO | \$1,000,000 | | | | | |
| CALIFORNIA NET INCOME/(LOSS) | <u>\$220,000</u> | <u>N/A</u> | <u>\$40,000</u> | <u>\$80,000</u> | <u>\$40,000</u> | <u>\$60,000</u> |

* THE TAXPAYER WOULD NOT BE ALLOWED AN NOL CARRYOVER AS CALCULATED UNDER WATER'S EDGE BECAUSE THE NOL CARRYOVER CAN NOT BE INCREASED.

EXAMPLE #3

NET OPERATING LOSS

| | FOREIGN <u>PARENT A</u> | FOREIGN <u>CORP B</u> | DOMESTIC <u>CORP C</u> | DOMESTIC <u>CORP D</u> | DOMESTIC <u>CORP E</u> | <u>TOTAL</u> |
|----------------------------|----------------------------|--------------------------|---------------------------|---------------------------|---------------------------|--------------|
| <i>OWNERSHIP %</i> | <u>N/A</u> | <u>60%</u> | <u>100%</u> | <u>100%</u> | <u>100%</u> | |
| <u>1986 FACTS</u> | | | | | | |
| UNITARY BUSINESS INCOME | \$1,000,000 | (\$1,500,000) | \$100,000 | \$500,000 | (\$1,000,000) | (\$900,000) |
| U.S. SOURCE INCOME | \$0 | \$500,000 | N/A | N/A | N/A | \$500,000 |
| AVERAGE TOTAL FACTORS | \$20,000,000 | \$10,000,000 | \$10,000,000 | \$1,000,000 | \$2,000,000 | \$43,000,000 |
| AVERAGE U.S. FACTORS | \$0 | \$1,000,000 | \$10,000,000 | \$1,000,000 | \$2,000,000 | \$14,000,000 |
| AVERAGE CALIFORNIA FACTORS | \$0 | \$1,000,000 | \$1,000,000 | \$1,000,000 | \$2,000,000 | \$5,000,000 |

1987 FACTS

| | | | | | | |
|----------------------------|--------------|--------------|--------------|-------------|-------------|--------------|
| UNITARY BUSINESS INCOME | \$800,000 | \$200,000 | \$100,000 | \$200,000 | (\$800,000) | \$500,000 |
| U.S. SOURCE INCOME | \$0 | \$100,000 | N/A | N/A | N/A | \$100,000 |
| AVERAGE TOTAL FACTORS | \$35,000,000 | \$25,000,000 | \$12,000,000 | \$1,000,000 | \$2,000,000 | \$75,000,000 |
| AVERAGE U.S. FACTORS | \$0 | \$2,000,000 | \$12,000,000 | \$1,000,000 | \$2,000,000 | \$17,000,000 |
| AVERAGE CALIFORNIA FACTORS | \$0 | \$2,000,000 | \$3,000,000 | \$1,000,000 | \$2,000,000 | \$8,000,000 |

1988 FACTS

| | | | | | | |
|----------------------------|--------------|--------------|--------------|-------------|-------------|--------------|
| UNITARY BUSINESS INCOME | \$2,000,000 | \$500,000 | \$100,000 | \$200,000 | \$200,000 | \$3,000,000 |
| U.S. SOURCE INCOME | \$0 | \$250,000 | N/A | N/A | N/A | \$250,000 |
| AVERAGE TOTAL FACTORS | \$40,000,000 | \$30,000,000 | \$15,000,000 | \$2,000,000 | \$3,000,000 | \$90,000,000 |
| AVERAGE U.S. FACTORS | \$0 | \$3,000,000 | \$15,000,000 | \$2,000,000 | \$3,000,000 | \$23,000,000 |
| AVERAGE CALIFORNIA FACTORS | \$0 | \$2,000,000 | \$4,000,000 | \$2,000,000 | \$3,000,000 | \$11,000,000 |

EXAMPLE #3

INCOME & NOL CALCULATION UNDER WORLD-WIDE COMBINATION

| | ----- CALIFORNIA FACTORS ----- | | | | | |
|--------------------------------|--------------------------------|-----------------------------|---------------------------|----------------------------|----------------------------|----------------------------|
| | <u>TOTAL</u> | <u>FOREIGN PARENT A</u> | <u>FOREIGN CORP B</u> | <u>DOMESTIC CORP C</u> | <u>DOMESTIC CORP D</u> | <u>DOMESTIC CORP E</u> |
| <u>1986</u> | | | | | | |
| APPORTIONMENT FACTORS | \$43,000,000 | \$0 | \$1,000,000 | \$1,000,000 | \$1,000,000 | \$2,000,000 |
| CALIFORNIA INTRASTATE % | 11.63% | 0.00% | 2.33% | 2.33% | 2.33% | 4.65% |
| TOTAL UNITARY BUSINESS INCO | (\$900,000) | | | | | |
| CALIFORNIA NET INCOME/(LOSS) | (\$104,651) | \$0 | (\$20,930) | (\$20,930) | (\$20,930) | (\$41,860) |
| <i>NOL CARRYOVER (50%)</i> | | \$0 | (\$10,465) | (\$10,465) | (\$10,465) | (\$20,930) |
| <u>1987</u> | | | | | | |
| APPORTIONMENT FACTORS | \$75,000,000 | \$0 | \$2,000,000 | \$3,000,000 | \$1,000,000 | \$2,000,000 |
| CALIFORNIA INTRASTATE % | 10.67% | 0.00% | 2.67% | 4.00% | 1.33% | 2.67% |
| TOTAL UNITARY BUSINESS INCO | \$500,000 | | | | | |
| CALIF. NET INCOME BEFORE NOI | \$53,333 | \$0 | \$13,333 | \$20,000 | \$6,667 | \$13,333 |
| <i>NOL CARRYOVER FROM 1986</i> | | \$0 | (\$10,465) | (\$10,465) | (\$10,465) | (\$20,930) |
| CALIFORNIA NET INCOME | \$12,403 | \$0 | \$2,868 | \$9,535 | \$0 | \$0 |
| <i>NOL CARRYOVER</i> | | \$0 | \$0 | \$0 | (\$3,798) | (\$7,597) |
| <u>1988</u> | | | | | | |
| APPORTIONMENT FACTORS | \$90,000,000 | \$0 | \$2,000,000 | \$4,000,000 | \$2,000,000 | \$3,000,000 |
| CALIFORNIA INTRASTATE % | 12.22% | 0.00% | 2.22% | 4.44% | 2.22% | 3.33% |
| TOTAL UNITARY BUSINESS INCO | \$3,000,000 | | | | | |
| CALIFORNIA NET INCOME/(LOSS) | \$366,667 | \$0 | \$66,667 | \$133,333 | \$66,667 | \$100,000 |
| <i>NOL CARRYOVER FROM 1986</i> | | \$0 | \$0 | \$0 | (\$3,798) | (\$7,597) |
| CALIF. NET INCOME AFTER NOL | \$355,272 | \$0 | \$66,667 | \$133,333 | \$62,869 | \$92,403 |

EXAMPLE #3

INCOME & NOL CALCULATION UNDER A WATERS-EDGE ELECTION

| | ----- CALIFORNIA FACTORS ----- | | | | | |
|------------------------------|--------------------------------|-----------------------------|---------------------------|----------------------------|----------------------------|----------------------------|
| | <u>TOTAL</u> | <u>FOREIGN PARENT A</u> | <u>FOREIGN CORP B</u> | <u>DOMESTIC CORP C</u> | <u>DOMESTIC CORP D</u> | <u>DOMESTIC CORP E</u> |
| 1986 | | | | | | |
| APPORTIONMENT FACTORS * | \$14,000,000 | N/A | \$1,000,000 | \$1,000,000 | \$1,000,000 | \$2,000,000 |
| CALIFORNIA INTRASTATE % | 35.71% | N/A | 7.14% | 7.14% | 7.14% | 14.29% |
| TOTAL UNITARY BUSINESS INCO | \$100,000 | | | | | |
| CALIFORNIA NET INCOME/(LOSS) | \$35,714 | N/A | \$7,143 | \$7,143 | \$7,143 | \$14,286 |

| | | | | | | |
|------------------------------|--------------|-----|-------------|-------------|-------------|-------------|
| 1987 | | | | | | |
| APPORTIONMENT FACTORS * | \$17,000,000 | N/A | \$2,000,000 | \$3,000,000 | \$1,000,000 | \$2,000,000 |
| CALIFORNIA INTRASTATE % | 47.06% | N/A | 11.76% | 17.65% | 5.88% | 11.76% |
| TOTAL UNITARY BUSINESS INCO | (\$400,000) | | | | | |
| CALIFORNIA NET INCOME/(LOSS) | (\$188,235) | N/A | (\$47,059) | (\$70,588) | (\$23,529) | (\$47,059) |
| NOL CARRYOVER (50%) | | N/A | (\$23,529) | (\$35,294) | (\$11,765) | (\$23,529) |

* THE APPORTIONMENT FACTORS WOULD NOT INCLUDE THE FOREIGN PARENT BECAUSE IT HAS NO U.S. FACTORS. (U.S. FACTORS OF CORP B WOULD BE INCLUDED BECAUSE IT HAS U.S. SOURCE INCOME BUT LESS THAN 20% OF ITS T ARE IN THE U.S.

| | | | | | | |
|------------------------------|--------------|-----|-------------|-------------|-------------|-------------|
| 1988 | | | | | | |
| APPORTIONMENT FACTORS | \$23,000,000 | N/A | \$2,000,000 | \$4,000,000 | \$2,000,000 | \$3,000,000 |
| CALIFORNIA INTRASTATE % | 47.83% | N/A | 8.70% | 17.39% | 8.70% | 13.04% |
| TOTAL UNITARY BUSINESS INCO | \$750,000 | | | | | |
| CALIFORNIA NET INCOME/(LOSS) | \$358,696 | N/A | \$65,217 | \$130,435 | \$65,217 | \$97,826 |

* THE TAXPAYER WOULD NOT BE ALLOWED TO UTILIZE THE NOL CALCULATED UNDER WATERS EDGE BECAUSE A BE DECREASED, NOT INCREASED.

EXAMPLE #4

NET OPERATING LOSS

| | FOREIGN PARENT A | FOREIGN CORP B | DOMESTIC CORP C | DOMESTIC CORP D | DOMESTIC CORP E | TOTAL |
|----------------------------|---------------------|-------------------|--------------------|--------------------|--------------------|---------------|
| OWNERSHIP % | <u>N/A</u> | <u>60%</u> | <u>100%</u> | <u>100%</u> | <u>100%</u> | |
| <u>1986 FACTS</u> | | | | | | |
| UNITARY BUSINESS INCOME | (\$2,500,000) | \$1,000,000 | \$100,000 | \$500,000 | (\$2,000,000) | (\$2,900,000) |
| U.S. SOURCE INCOME | \$0 | \$0 | N/A | N/A | N/A | \$0 |
| AVERAGE TOTAL FACTORS | \$20,000,000 | \$10,000,000 | \$10,000,000 | \$1,000,000 | \$2,000,000 | \$43,000,000 |
| AVERAGE U.S. FACTORS | \$0 | \$1,000,000 | \$10,000,000 | \$1,000,000 | \$2,000,000 | \$14,000,000 |
| AVERAGE CALIFORNIA FACTORS | \$0 | \$0 | \$1,000,000 | \$1,000,000 | \$2,000,000 | \$4,000,000 |

1987 FACTS

| | | | | | | |
|----------------------------|--------------|--------------|--------------|-------------|-------------|--------------|
| UNITARY BUSINESS INCOME | \$800,000 | \$200,000 | \$100,000 | \$200,000 | (\$800,000) | \$500,000 |
| U.S. SOURCE INCOME | \$0 | \$0 | N/A | N/A | N/A | \$0 |
| AVERAGE TOTAL FACTORS | \$35,000,000 | \$25,000,000 | \$12,000,000 | \$1,000,000 | \$2,000,000 | \$75,000,000 |
| AVERAGE U.S. FACTORS | \$0 | \$2,000,000 | \$12,000,000 | \$1,000,000 | \$2,000,000 | \$17,000,000 |
| AVERAGE CALIFORNIA FACTORS | \$0 | \$0 | \$3,000,000 | \$1,000,000 | \$2,000,000 | \$6,000,000 |

1988 FACTS

| | | | | | | |
|----------------------------|--------------|--------------|--------------|-------------|-------------|--------------|
| UNITARY BUSINESS INCOME | \$2,000,000 | \$500,000 | \$100,000 | \$200,000 | \$200,000 | \$3,000,000 |
| U.S. SOURCE INCOME | \$0 | \$0 | N/A | N/A | N/A | \$0 |
| AVERAGE TOTAL FACTORS | \$40,000,000 | \$30,000,000 | \$15,000,000 | \$2,000,000 | \$3,000,000 | \$90,000,000 |
| AVERAGE U.S. FACTORS | \$0 | \$3,000,000 | \$15,000,000 | \$2,000,000 | \$3,000,000 | \$23,000,000 |
| AVERAGE CALIFORNIA FACTORS | \$0 | \$0 | \$4,000,000 | \$2,000,000 | \$3,000,000 | \$9,000,000 |

EXAMPLE #4

INCOME & NOL CALCULATION UNDER WORLD-WIDE COMBINATION

| | ----- CALIFORNIA FACTORS ----- | | | | | |
|---|--------------------------------|-----------------------------|---------------------------|----------------------------|----------------------------|----------------------------|
| | <u>TOTAL</u> | <u>FOREIGN PARENT A</u> | <u>FOREIGN CORP B</u> | <u>DOMESTIC CORP C</u> | <u>DOMESTIC CORP D</u> | <u>DOMESTIC CORP E</u> |
| <u>1986</u> | | | | | | |
| APPORTIONMENT FACTORS | \$43,000,000 | \$0 | \$1,000,000 | \$1,000,000 | \$1,000,000 | \$2,000,000 |
| CALIFORNIA INTRASTATE % | 11.63% | 0.00% | 2.33% | 2.33% | 2.33% | 4.65% |
| TOTAL UNITARY BUSINESS INCO (\$2,900,000) | | | | | | |
| CALIFORNIA NET INCOME/(LOSS) | (\$269,767) | \$0 | \$0 | (\$67,442) | (\$67,442) | (\$134,884) |
| <i>NOL CARRYOVER (50%)</i> | | <i>\$0</i> | <i>\$0</i> | <i>(\$33,721)</i> | <i>(\$33,721)</i> | <i>(\$67,442)</i> |
| <u>1987</u> | | | | | | |
| APPORTIONMENT FACTORS | \$75,000,000 | \$0 | \$0 | \$3,000,000 | \$1,000,000 | \$2,000,000 |
| CALIFORNIA INTRASTATE % | 8.00% | 0.00% | 0.00% | 4.00% | 1.33% | 2.67% |
| TOTAL UNITARY BUSINESS INCO | \$500,000 | | | | | |
| CALIF. NET INCOME BEFORE NOI | \$40,000 | \$0 | \$0 | \$20,000 | \$6,667 | \$13,333 |
| <i>NOL CARRYOVER FROM 1986</i> | | <i>\$0</i> | <i>\$0</i> | <i>(\$33,721)</i> | <i>(\$33,721)</i> | <i>(\$67,442)</i> |
| CALIFORNIA NET INCOME | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| <i>NOL CARRYOVER</i> | | <i>\$0</i> | <i>\$0</i> | <i>(\$13,721)</i> | <i>(\$27,054)</i> | <i>(\$54,109)</i> |
| <u>1988</u> | | | | | | |
| APPORTIONMENT FACTORS | \$90,000,000 | \$0 | \$0 | \$4,000,000 | \$2,000,000 | \$3,000,000 |
| CALIFORNIA INTRASTATE % | 10.00% | 0.00% | 0.00% | 4.44% | 2.22% | 3.33% |
| TOTAL UNITARY BUSINESS INCO | \$3,000,000 | | | | | |
| CALIFORNIA NET INCOME/(LOSS) | \$300,000 | \$0 | \$0 | \$133,333 | \$66,667 | \$100,000 |
| <i>NOL CARRYOVER FROM 1986</i> | | <i>\$0</i> | <i>\$0</i> | <i>(\$13,721)</i> | <i>(\$27,054)</i> | <i>(\$54,109)</i> |
| CALIF. NET INCOME AFTER NOL | \$205,116 | \$0 | \$0 | \$119,612 | \$39,613 | \$45,891 |

EXAMPLE #4

INCOME & NOL CALCULATION UNDER A WATERS-EDGE ELECTION

| | ----- CALIFORNIA FACTORS ----- | | | | | |
|---|--------------------------------|-----------------------------|---------------------------|----------------------------|----------------------------|----------------------------|
| | <u>TOTAL</u> | <u>FOREIGN PARENT A</u> | <u>FOREIGN CORP B</u> | <u>DOMESTIC CORP C</u> | <u>DOMESTIC CORP D</u> | <u>DOMESTIC CORP E</u> |
| 1986 | | | | | | |
| APPORTIONMENT FACTORS * | \$13,000,000 | N/A | N/A | \$1,000,000 | \$1,000,000 | \$2,000,000 |
| CALIFORNIA INTRASTATE % | 30.77% | N/A | N/A | 7.69% | 7.69% | 15.38% |
| TOTAL UNITARY BUSINESS INCO (\$1,400,000) | | | | | | |
| CALIFORNIA NET INCOME/(LOSS) | (\$430,769) | N/A | N/A | (\$107,692) | (\$107,692) | (\$215,385) |
| NOL CARRYOVER | | N/A | N/A | (\$53,846) | (\$53,846) | (\$107,692) |

| | | | | | | |
|---|--------------|-----|-------------|-------------|-------------|-------------|
| 1987 | | | | | | |
| APPORTIONMENT FACTORS * | \$17,000,000 | N/A | \$2,000,000 | \$3,000,000 | \$1,000,000 | \$2,000,000 |
| CALIFORNIA INTRASTATE % | 40.00% | N/A | N/A | 20.00% | 6.67% | 13.33% |
| TOTAL UNITARY BUSINESS INCO (\$500,000) | | | | | | |
| CALIFORNIA NET INCOME/(LOSS) | (\$200,000) | N/A | N/A | (\$100,000) | (\$33,350) | (\$66,650) |
| NOL CARRYOVER | | N/A | N/A | (\$50,000) | (\$16,675) | (\$33,325) |

*THE INCOME AND FACTORS OF THE PARENT WOULD NOT BE INCLUDED IN THE WATER'S EDGE GROUPS BECAUSE I U.S. SOURCE INCOME AND NO U.S. FACTORS. THE INCOME AND FACTORS OF CORP B WOULD NOT BE INCLUDED IN T EDGE GROUP BECAUSE IT HAS NO U.S. SOURCE INCOME AND IT'S U.S. FACTORS ARE LESS THAN 20% OF IT'S TOTAL FA

| | | | | | | |
|---------------------------------------|--------------|-----|-----|-------------|-------------|-------------|
| 1988 | | | | | | |
| APPORTIONMENT FACTORS | \$20,000,000 | N/A | N/A | \$4,000,000 | \$2,000,000 | \$3,000,000 |
| CALIFORNIA INTRASTATE % | 45.00% | N/A | N/A | 20.00% | 10.00% | 15.00% |
| TOTAL UNITARY BUSINESS INCO \$500,000 | | | | | | |
| CALIFORNIA NET INCOME/(LOSS) | \$225,000 | N/A | N/A | \$100,000 | \$50,000 | \$75,000 |
| NOL CARRYOVER* | | N/A | N/A | (\$13,721) | (\$27,054) | (\$54,109) |
| CALIFORNIA NET INCOME/(LOSS) | \$130,116 | N/A | N/A | \$86,279 | \$22,946 | \$20,891 |

*THE NOL CARRYOVER WOULD BE AS REPORTED, IT WOULD NOT BE INCREASED AS THE CALCULATION UNDER WA' Page 12